

It's a Great Time to Buy a Home Upstate

Talking Points on Why This is a Good Time to Buy a Home Upstate

I. Perspective on a Buyer's Market – Don't Believe the Headlines

- Today's sensational headlines ("Subprime Mortgage Meltdown," "Housing in the Tank") place an unduly gloomy picture of the national (and local) housing market.
- Despite the dire headlines that have appeared in the news, most Americans have reasonably good expectations that the economy will remain on their side for some time to come.
- A closer look at conditions in the housing market provide further grounds for optimism among prospective home buyers, and some of the negative developments in the marketplace can actually work to their benefit.
- For example, housing prices on a national basis have been losing some ground -- a development that sounds far worse than it actually is.
- At the height of the housing boom, home prices were rising at their fastest pace in history. In the hottest markets, prices doubled in a matter of years.
- Clearly this pace was unsustainable. And it didn't take too long before prices rose to unaffordable levels in many other parts of the country.

II. Surprising Advantages for Home Buyers

- But today's down market offers some surprising home-buying advantages.
- The speculators who flooded the market in search of overnight gains are gone and the downward adjustment to housing production should run its course by mid-2008, creating several opportunities for home buyers in the interim:
 - In the near term, the fact that home builders are appropriately cutting back on new supply to meet current market conditions and acting aggressively to offer great incentives to boost sales is a boon to home buyers.
 - The current housing price correction is helping to restore affordability. Prices have leveled off, or even declined in some areas, making this the best time to buy.
 - With a wider variety of choice for home shoppers in all price ranges, families looking to buy can shop at their leisure and decide what home comes closest to filling their needs and desires.

- Mortgage financing for borrowers with solid credit remains readily available for a conventional loan limited to \$417,000.
- In fact, mortgage interest rates are still very affordable and remain near historic lows at just above 6 percent.
- Creditworthy buyers looking for a jumbo loan above \$417,000 will find more challenging conditions. However financing opportunities are still available, though buyers will need to pay a premium of about 1 percent above conforming loan rates.
- In an economy that continues to grow, create jobs and increase household income, this will help the housing market begin to recover next year.
- As home builders continue to work down their inventories of unsold homes in a market that definitely favors the home buyer, the future looks bright for housing.
- Economic fundamentals remain solid and the home building industry will need to construct almost 18 million new homes in the next decade to keep up with expected new household formations.
- All of this bodes well for future house price appreciation.

III. Timing the Market is for Losers

- Housing has always been a cyclical business, with its ups and downs. As surely as the market has slowed today, it will start picking up speed again.
- Potential home buyers who try to “time the market” in hopes of buying at the trough are likely to lose out. Here’s why.
- Just as no one can accurately predict the peaks and valleys of the stock market, the same holds true for housing.
- Fence-sitters waiting for the absolute best deal could end up literally waiting for years, and most likely their guess on market timing would be wrong. Meanwhile, those who buy now will have a home they can call their own and reap the long-term gains of home price appreciation.
- For example, those who purchased homes in the early 1990s during the last big economic and housing downturn came out as big winners. The median price of a new home in 1991 was \$120,000. In July 2007, it was \$239,500 – nearly double in price.

IV. Advantages of Homeownership

Best Investment ...

- Consumers who take advantage of this excellent buying climate to purchase a home will find that it is the best investment they ever made.
- Buying a home is the largest investment most families will ever make and homeownership is the single largest creator of wealth for Americans.
- It allows families to build financial security as the equity in their home increases.

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- As home owners repay their mortgages, their debt declines, while overall wealth and equity in the home grow.
- Although local housing markets periodically adjust according to overall economic conditions, over the long term real estate has consistently appreciated.
- On a national level, home appreciation has historically risen 5-6 percent annually.
- Five percent may not seem at much at first, but take a look at the numbers. If you bought a \$200,000 house and put 10 percent down, that would be an investment of \$20,000.
- At an appreciation rate of 5 percent annually, a \$200,000 home would increase in value \$10,000 during the first year. That means you earned \$10,000 with an investment of \$20,000. Your annual “return on investment” would be a whopping 50 percent.
- In contrast, putting the same \$10,000 in the stock market and registering a similar 5 percent gain would only yield a \$500 return on investment.
- The big difference in returns is a result of “leveraging” – putting down a small amount of money to earn the biggest return.
- This is especially important for first-time home buyers. Entering the market now starts you on the road to home price appreciation. And the profit from selling a “starter” house will enable buyers with growing families to afford a bigger home in the future.

... Even Better than Stocks

- Compared to other investments, such as stocks, a home is a relatively stable investment.
- Homes tend to increase in value at a steady, reasonable pace while alternatives can be extremely volatile.
- For example, during the stock market decline of 2001-2002, households lost more than \$1 trillion in stock value, while their housing equity continued to climb.
- Looking at this another way and applying the power of leveraging, if someone put \$10,000 into the stock market in 1996, the average annual S&P return would make that investment worth \$21,500 today – an increase of \$11,500.
- By comparison, the median priced home in 1996 was worth \$140,000. Today, that same home would have gained nearly \$100,000 in value. And the real value of the investment is worth even more, because the home owner has paid down a significant portion of the mortgage in the interim.

Tax Savings

- And don't forget the fantastic tax incentives. It's by far the biggest and best tax break for middle America.
- Collectively, home owners save nearly \$100 billion annually on mortgage interest and property deductions alone.
- These tax incentives are designed to make owning a home more affordable.
- In most instances, all of the interest and property taxes you pay in a given year can be fully deducted from your gross income to reduce your taxable income.
- These deductions can result in thousands of dollars of tax savings, especially in the early years of the mortgage when interest makes up most of the payment.
- To look at this another way, if you are in the 30 percent tax bracket, you only pay 70 cents on the dollar in mortgage interest payments.
- Plus, the best tax break available to homeowners is when they sell their primary residence.
- A couple who own and live in their home for two years and then decide to sell can keep up to \$500,000 of the profit tax-free. (A single owner can keep \$250,000.)
- If the couple use these gains to buy a bigger home, and live in that home for at least two years, the same rules hold true when they go to sell again.
- This is one of the biggest tax advantages of homeownership and a great way to build household wealth.

Building Equity for the Future

- Owning a home is like investing in an automatic savings account. You accumulate savings in two ways. Every month, a portion of your monthly mortgage payment goes to the principal, reducing the overall loan amount. Each year, a greater percentage of your mortgage payment goes to paying down the principal.
- Second, your home appreciates over time, making it one of the very best financial investments.
- As your property appreciates, you build up equity in the home, increasing your household wealth.
- Many families elect to take out home equity loans to help put children through college, to purchase a second home, to make home improvements, to start a new business, to pay for medical costs or even to take vacations.
- And interest payments on home equity loans are fully deductible up to \$100,000.

- By comparison, consumers who carry credit card balances cannot deduct the interest and can pay rates as high as 20 percent, more than double a typical home equity line of credit.

Price Stability

- Owning a home provides price stability. While a rent payment can change substantially from year-to-year, you will have the same monthly payment for 30 years under a fixed-rate mortgage.
- Even if you get an adjustable rate mortgage, your payment will stay within a certain range for the entire life of the mortgage.
- And interest rates today are running near historical lows and not nearly as volatile as they were in the late 1970s and early 1980s.
- Knowing their mortgage payments will stay the same month after month provides households with a sense of financial security and also acts as a hedge against inflation.

Fulfilling the American Dream

- In summary, owning a home provides:
 1. The best investment
 2. A great tax benefit
 3. Financial freedom to send a child to college or provide a nest egg for retirement
- Not only is homeownership a stepping stone to a future of financial security, it provides a permanent place to call home and enormous personal satisfaction.
- It strengthens the nation's people and its communities. Homeownership creates community stakeholders who tend to be active in charities, churches and neighborhood activities. Homeownership inspires civic responsibility, and homeowners are more likely to vote and get involved with local issues.
- Americans associate homeownership with economic success and the accumulation of wealth.
- It is truly the cornerstone of the American way of life, and the fulfillment of the American dream.